



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	HB0226	<b>Title:</b>	Revise oil and gas laws related to the oil and gas damage mitigation account
<b>Primary Sponsor:</b>	Richmond, Tom	<b>Status:</b>	As Introduced

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**Description of fiscal impact:** HB 226 changes the allocation of the resource indemnity trust fund interest, increasing the distribution to the oil and gas damage mitigation account and decreasing the distribution to the natural resource projects account, which is used to fund reclamation and development grants. In biennia when the interest revenue received is sufficient to cover the statutory allocations, the oil and gas damage mitigation account will receive an increase of \$600,000 per biennium, distributed in the first year of the biennium. The distribution to the natural resource projects account will decrease by \$300,000 per year, resulting in a reduction of \$600,000 per biennium. In biennia where the interest revenue received is insufficient to cover the statutory allocations (as is estimated to be the case in the coming biennium), the distributions will be adjusted accordingly (see assumption #10). Other special revenue account allocations from the resource indemnity trust fund interest are secondarily impacted from this bill.

## FISCAL ANALYSIS

### Assumptions:

1. The resource indemnity trust fund (RITF) was established for the state of Montana to indemnify its citizens for the loss of long-term value resulting from the depletion of its mineral resource base and for environmental damage caused by mineral development (15-38-102, MCA).
2. After the RITF reaches \$100 million, all net earnings, excluding unrealized gains and losses, and all receipts may be appropriated by the legislature and expended, provided that the fund balance is never less than \$100 million (15-38-202, MCA).
3. Under current law, each fiscal year, \$3.5 million is appropriated from the interest income of the RITF to the natural resources projects special revenue account. This bill would reduce that appropriation to \$3.2 million each fiscal year.
4. The natural resources projects state special revenue account is for the purpose of funding reclamation and development grants.
5. Under current law, each biennium, up to \$50,000 is allocated from the interest income of the RITF to the oil and gas production damage mitigation account under 82-11-161, MCA. This bill would increase that appropriation to \$650,000 per biennium. This will replace the \$600,000 in grant priority established currently under 90-2-1113(2)(a) through (c), MCA, and the Board of Oil and Gas Conservation (BOGC) will no longer have priority.
6. The oil and gas production damage mitigation account is administered by the BOGC. It is to be used for properly plugging abandoned wells and reclaiming or restoring surrounding drill sites or areas.
7. Under current law, if the balance of the oil and gas production damage mitigation account exceeds or equals \$200,000, there should be no allocation from the interest earnings of the RITF. This bill will increase that limit to \$2 million. This fiscal note assumes that the oil and gas production damage mitigation account does not meet those limits.
8. This bill will require that any remainder of the \$650,000 not allocated to the oil and gas damage mitigation account be deposited in the natural resources projects state special revenue account. This fiscal note assumes that there would not be any remainder of the \$650,000 allocation to the oil and gas damage mitigation account.
9. Using estimates of RITF interest earnings for FY 2016 and FY 2017 from HJ 2, and OBPP's extrapolations of these figures for FY 2018 and FY 2019, expected RITF interest for these years is not expected to be sufficient to fulfill all statutory allocations. Thus, the distributions will be proportionally adjusted to account for the actual RITF interest (see assumption #10). This would result in changes to the allocations for all accounts receiving RITF interest under this bill. Additionally, since there will not be enough interest revenue to fulfill the statutory appropriations, there will not be any revenue available to distribute to the natural resource operations account, the hazardous waste/CERCLA account, or the environmental quality protection account.
10. Since it is assumed that estimated RTIF interest earnings for the years FY 2016 through FY 2019 will fall short of the amount required to fulfill each fund's statutory allocation, adjustments are to be made in order to ensure that each account that is assigned a fixed statutory allocation receives an appropriate share of the total RTIF interest earnings. Each account is distributed revenue based on the share the account's statutory allocation is of the total RTIF interest revenue needed to cover the statutory appropriation of all accounts. For example, at the beginning of each biennium, \$5.025 million is needed to fully fund each account as outlined in present law. The oil and gas damage mitigation account receives \$50,000 in the first year of each biennium according the present law, so its allocation is equal to 1% of \$5.025 million. In FY 2016 (the beginning of the 2017 biennium), RTIF interest earnings are estimated to be \$3.787 million, well short of the \$5.025 million needed to fund all accounts. As such, the present law distribution to the oil and gas damage mitigation account (assuming the balance in the account is not at the \$200,000 threshold) in FY

2016 would be 1% of \$3.787 million, or approximately \$38,000. These calculations are applied to all accounts to determine the distribution of RTIF interest in years with revenue shortfalls.

11. The following information in Table 1 shows the estimated total RITF interest revenue for FY 2016 through FY 2019 and the statutory distribution of the RITF interest as it exists in present law.

<b>Table 1</b> <b>Present Law Resource Indemnity Trust Interest Statutory Allocation</b> (\$ millions)				
Entity	FY 2016	FY 2017	FY 2018	FY 2019
<b>Total Revenue</b>	<b>\$3.787</b>	<b>\$3.530</b>	<b>\$3.276</b>	<b>\$3.351</b>
<b>Biennial Fixed Allocations</b>				
Oil & Gas Damage Mitigation	\$0.050	\$0.000	\$0.050	\$0.000
Environmental Contingency	\$0.175	\$0.000	\$0.175	\$0.000
Water Storage	\$0.500	\$0.000	\$0.500	\$0.000
<b>Annual Fixed Allocation</b>				
Natural Resources Projects	\$3.500	\$3.500	\$3.500	\$3.500
Ground Water Assessment	\$0.300	\$0.300	\$0.300	\$0.300
Future Fisheries	\$0.500	\$0.500	\$0.500	\$0.500
<b>Remainder</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>
<b>Annual Percentage Allocations</b>				
Natural Resource Operations (65%)	\$0.000	\$0.000	\$0.000	\$0.000
Hazardous Waste/CERCLA (26%)	\$0.000	\$0.000	\$0.000	\$0.000
Environmental Quality Protection (9%)	\$0.000	\$0.000	\$0.000	\$0.000

12. Table 2 shows the estimated distribution of the RITF interest based on present law. From FY 2016 through FY 2019, it is estimated that the interest from the RITF will not be enough to fulfill the present law statutory allocations. As a result, each account will receive a percentage of the realized interest, with the percentage calculated based on each account's statutory appropriation as a share of the total amount of interest needed to meet all of the statutorily appropriated revenue (see #assumption 10).

<b>Table 2</b> <b>Present Law Resource Indemnity Trust Interest Estimated Allocation</b> (\$ millions)				
<b>Entity</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Total Revenue</b>	<b>\$3.787</b>	<b>\$3.530</b>	<b>\$3.276</b>	<b>\$3.351</b>
<b>Biennial Fixed Allocations</b>				
Oil & Gas Damage Mitigation	\$0.038	\$0.000	\$0.033	\$0.000
Environmental Contingency	\$0.132	\$0.000	\$0.114	\$0.000
Water Storage	\$0.377	\$0.000	\$0.326	\$0.000
<b>Annual Fixed Allocation</b>				
Natural Resources Projects	\$2.638	\$2.873	\$2.282	\$2.728
Ground Water Assessment	\$0.226	\$0.246	\$0.196	\$0.234
Future Fisheries	\$0.377	\$0.410	\$0.326	\$0.390
<b>Remainder</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>
<b>Annual Percentage Allocations</b>				
Natural Resource Operations (65%)	\$0.000	\$0.000	\$0.000	\$0.000
Hazardous Waste/CERCLA (26%)	\$0.000	\$0.000	\$0.000	\$0.000
Environmental Quality Protection (9%)	\$0.000	\$0.000	\$0.000	\$0.000

13. The changes in the statutory appropriation of the interest from the RITF as proposed in HB 226 are outlined in Table 3. Per HB 226, the oil and gas damage mitigation account receives \$650,000 instead of the current \$50,000 contained in present law. The distribution to the natural resource projects account decreases from \$3.5 million to \$3.2 million.

<b>Table 3</b> <b>HB 226 Proposed Resource Indemnity Trust Interest Statutory Allocation</b> (\$ millions)				
Entity	FY 2016	FY 2017	FY 2018	FY 2019
<b>Total Revenue</b>	<b>\$3.787</b>	<b>\$3.530</b>	<b>\$3.276</b>	<b>\$3.351</b>
<b>Biennial Fixed Allocations</b>				
Oil & Gas Damage Mitigation	\$0.650	\$0.000	\$0.650	\$0.000
Environmental Contingency	\$0.175	\$0.000	\$0.175	\$0.000
Water Storage	\$0.500	\$0.000	\$0.500	\$0.000
<b>Annual Fixed Allocation</b>				
Natural Resources Projects	\$3.200	\$3.200	\$3.200	\$3.200
Ground Water Assessment	\$0.300	\$0.300	\$0.300	\$0.300
Future Fisheries	\$0.500	\$0.500	\$0.500	\$0.500
<b>Remainder</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>
<b>Annual Percentage Allocations</b>				
Natural Resource Operations (65%)	\$0.000	\$0.000	\$0.000	\$0.000
Hazardous Waste/CERCLA (26%)	\$0.000	\$0.000	\$0.000	\$0.000
Environmental Quality Protection (9%)	\$0.000	\$0.000	\$0.000	\$0.000

14. Table 4 shows the estimated distribution of the RITF interest based on the changes made in HB 226. Since the amount of interest from the RTIF is not expected to be enough to fulfill the appropriations outlined in HB 226, each account will receive a percentage of the realized interest for FY 2016 through FY 2019. The same process used to determine each account's allocation in Table 2 (see assumption 12) is used to come up with the estimated allocations in Table 4.

<b>Table 4</b> <b>HB 226 Proposed Resource Indemnity Trust Interest Estimated Allocation</b> (\$ millions)				
<b>Entity</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Total Revenue</b>	<b>\$3.787</b>	<b>\$3.530</b>	<b>\$3.276</b>	<b>\$3.351</b>
<b>Biennial Fixed Allocations</b>				
Oil & Gas Damage Mitigation	\$0.462	\$0.000	\$0.400	\$0.000
Environmental Contingency	\$0.124	\$0.000	\$0.108	\$0.000
Water Storage	\$0.356	\$0.000	\$0.308	\$0.000
<b>Annual Fixed Allocation</b>				
Natural Resources Projects	\$2.276	\$2.824	\$1.969	\$2.681
Ground Water Assessment	\$0.213	\$0.265	\$0.185	\$0.251
Future Fisheries	\$0.356	\$0.441	\$0.308	\$0.419
<b>Remainder</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>
<b>Annual Percentage Allocations</b>				
Natural Resource Operations (65%)	\$0.000	\$0.000	\$0.000	\$0.000
Hazardous Waste/CERCLA (26%)	\$0.000	\$0.000	\$0.000	\$0.000
Environmental Quality Protection (9%)	\$0.000	\$0.000	\$0.000	\$0.000

15. Table 5 summarizes the differences in the estimated distribution of the RITF interest between present law and the changes proposed by HB 226. The values in Table 5 are calculated by subtracting the values in Table 2 from the values in Table 4. For FY 2016 through FY 2019, the impact of HB 226 manifests itself as an increase in revenue to the oil and gas damage mitigation account, while most of the other accounts experience a reduction in revenue (except for the ground water assessment account and future fisheries accounts in FY 2017 and FY 2019).

<b>Table 5</b> <b>Difference Between Present Law and HB 226 Resource Indemnity Trust</b> <b>Interest Estimated Allocation</b> (\$ millions)				
<b>Entity</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Total Revenue</b>	<b>\$3.787</b>	<b>\$3.530</b>	<b>\$3.276</b>	<b>\$3.351</b>
<b>Biennial Fixed Allocations</b>				
Oil & Gas Damage Mitigation	\$0.425	\$0.000	\$0.367	\$0.000
Environmental Contingency	(\$0.007)	\$0.000	(\$0.006)	\$0.000
Water Storage	(\$0.021)	\$0.000	(\$0.018)	\$0.000
<b>Annual Fixed Allocation</b>				
Natural Resources Projects	(\$0.362)	(\$0.049)	(\$0.313)	(\$0.047)
Ground Water Assessment	(\$0.013)	\$0.018	(\$0.011)	\$0.018
Future Fisheries	(\$0.021)	\$0.031	(\$0.018)	\$0.029
<b>Remainder</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>
<b>Annual Percentage Allocations</b>				
Natural Resource Operations (65%)	\$0.000	\$0.000	\$0.000	\$0.000
Hazardous Waste/CERCLA (26%)	\$0.000	\$0.000	\$0.000	\$0.000
Environmental Quality Protection (9%)	\$0.000	\$0.000	\$0.000	\$0.000

16. This bill is effective July 1, 2015.

	<b><u>FY 2016 Difference</u></b>	<b><u>FY 2017 Difference</u></b>	<b><u>FY 2018 Difference</u></b>	<b><u>FY 2019 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
Natural Resource Proj (0257)	(\$361,958)	(\$49,256)	(\$313,115)	(\$46,758)
B of M Groundwater (02289)	(\$12,738)	\$18,471	(\$11,019)	\$17,534
RIT - Trout Enhance (02022)	(\$21,229)	\$30,785	(\$18,364)	\$29,224
Oil and Gas Damage (02010)	\$424,584	\$0	\$367,290	\$0
Water Storage (02216)	(\$21,229)	\$0	(\$18,364)	\$0
Enviro Contingency (02107)	(\$7,430)	\$0	(\$6,428)	\$0
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b><u>Funding of Expenditures:</u></b>				
Natural Resource Proj (0257)	(\$361,958)	(\$49,256)	(\$313,115)	(\$46,758)
B of M Groundwater (02289)	(\$12,738)	\$18,471	(\$11,019)	\$17,534
RIT - Trout Enhance (02022)	(\$21,229)	\$30,785	(\$18,364)	\$29,224
Oil and Gas Damage (02010)	\$424,584	\$0	\$367,290	\$0
Water Storage (02216)	(\$21,229)	\$0	(\$18,364)	\$0
Enviro Contingency (02107)	(\$7,430)	\$0	(\$6,428)	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
Natural Resource Proj (0257)	(\$361,958)	(\$49,256)	(\$313,115)	(\$46,758)
B of M Groundwater (02289)	(\$12,738)	\$18,471	(\$11,019)	\$17,534
RIT - Trout Enhance (02022)	(\$21,229)	\$30,785	(\$18,364)	\$29,224
Oil and Gas Damage (02010)	\$424,584	\$0	\$367,290	\$0
Water Storage (02216)	(\$21,229)	\$0	(\$18,364)	\$0
Enviro Contingency (02107)	(\$7,430)	\$0	(\$6,428)	\$0
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0

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*Sponsor's Initials*\_\_\_\_\_  
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*Date*